

THE REALITY OF SUB-NATIONAL TAXATION IN CONFLICT-AFFECTED STATES

VANESSA VAN DEN BOOGAARD

IMFG Graduate Fellow

May 24, 2018

Outline



I. Introduction: taxation, development, and state-building

II. Informal fiscal realities in Sierra Leone and the DRC

III. Implications for state-building

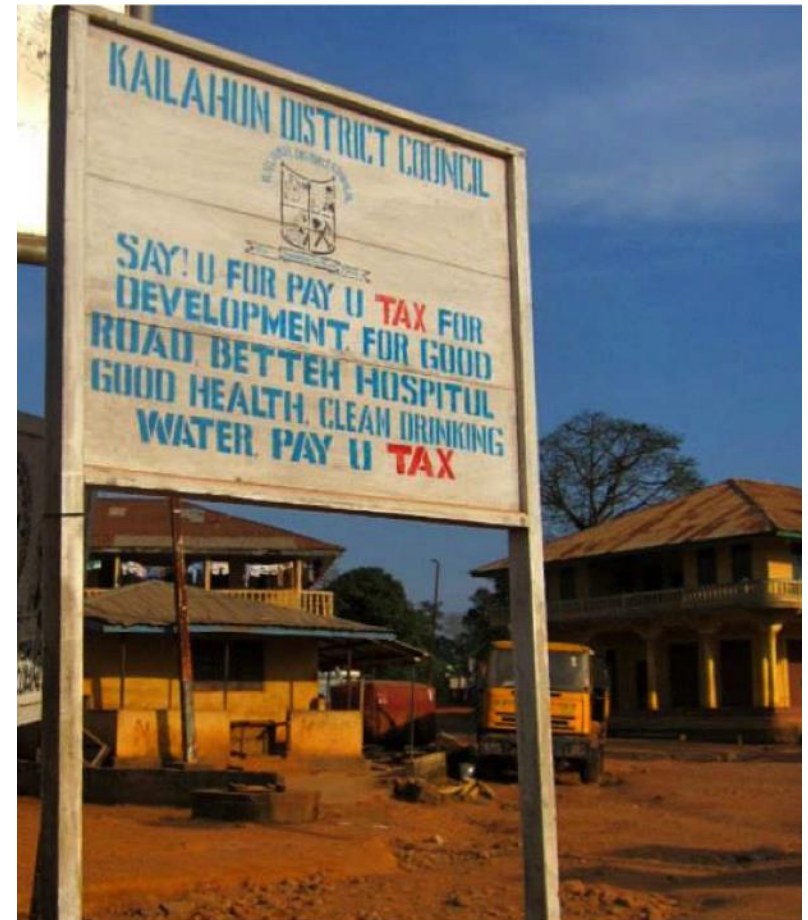
IV. Policy implications

I. INTRODUCTION



Taxation and state-building

- Sustainable development
- State capacity
- State-society accountability processes



Theory vs. practice



- Limited capacity and poor incentives
- Predatory taxation
- Obstacles to collective action
- Focus on formal tax systems

Informal Fiscal Realities

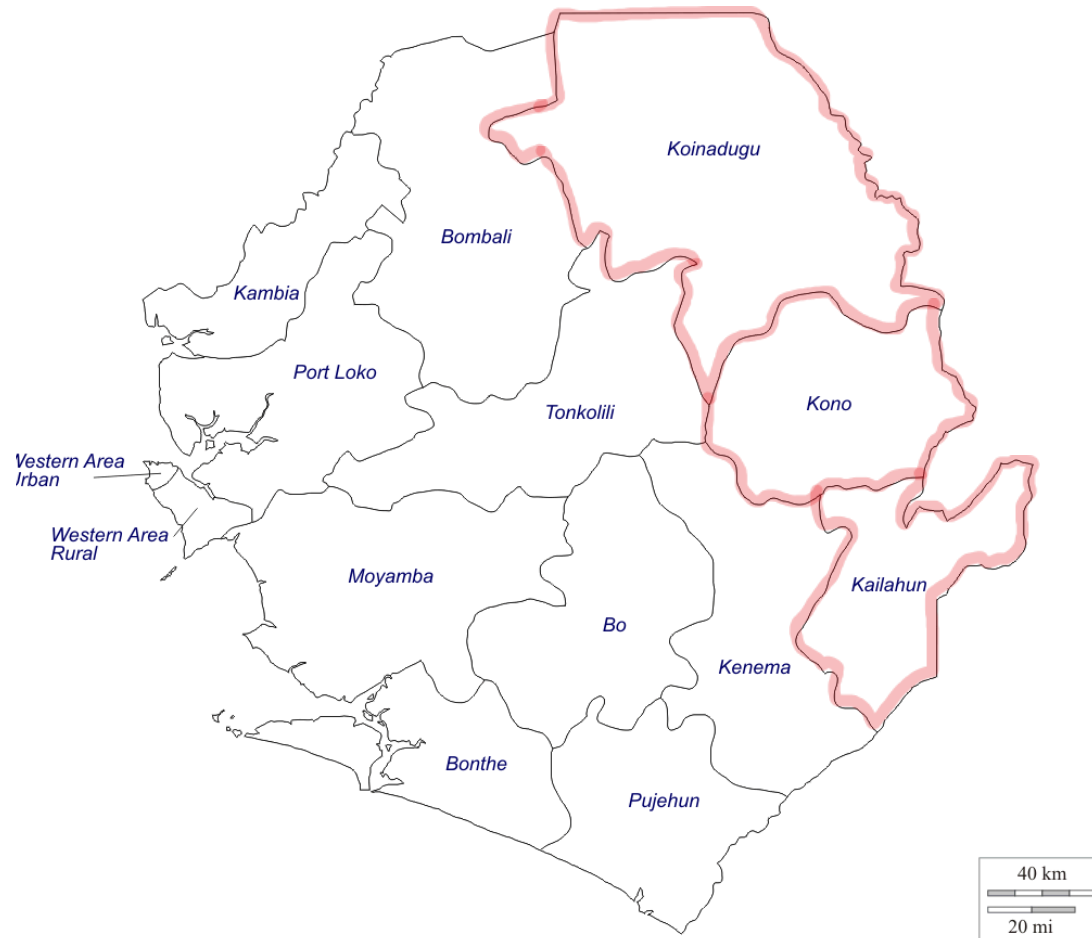
- Informal tax
 - ▣ Contributions from individuals, households and businesses
 - ▣ Enforced through means outside of the formal legal system
 - ▣ May finance local public goods in the absence of strong state institutions
- Importance of user fees



Why does this matter?

- Underestimation of tax burdens
- Misunderstanding of dynamics of local governance – and appropriate policy responses
- Need to rethink the potential of taxation to provide spur for greater accountability or institutional development

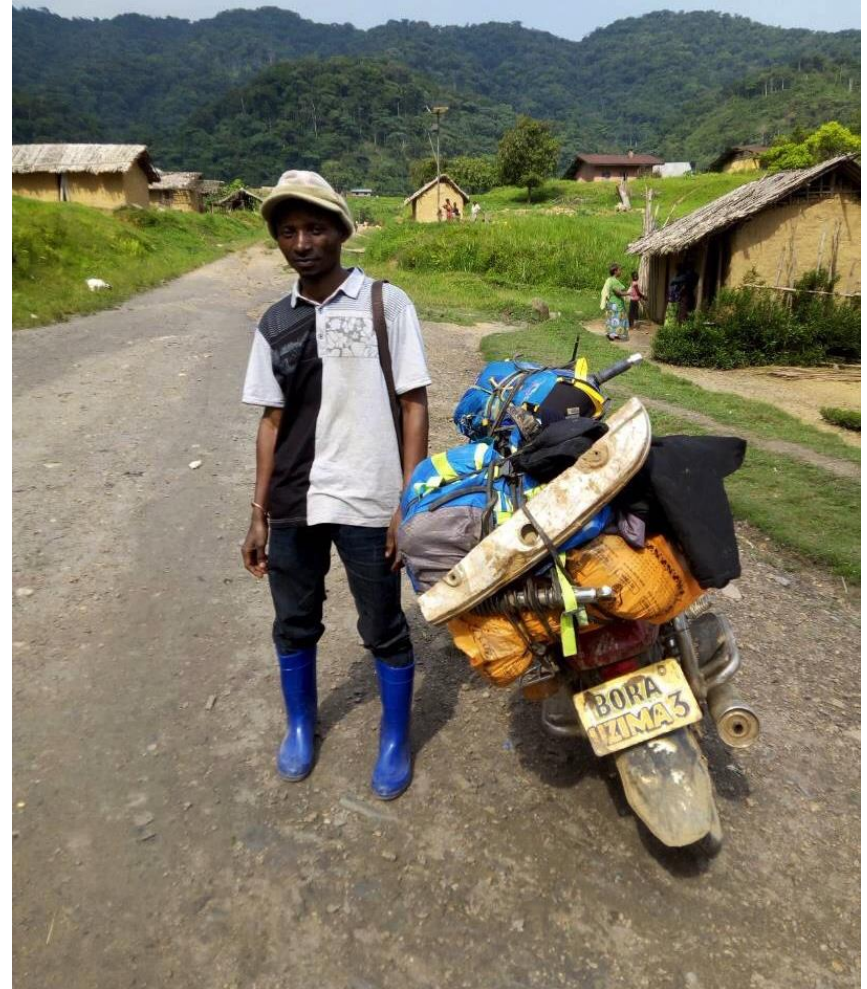
Case study: Sierra Leone



Case study: DRC



Research Methods



II. INFORMAL FISCAL REALITIES

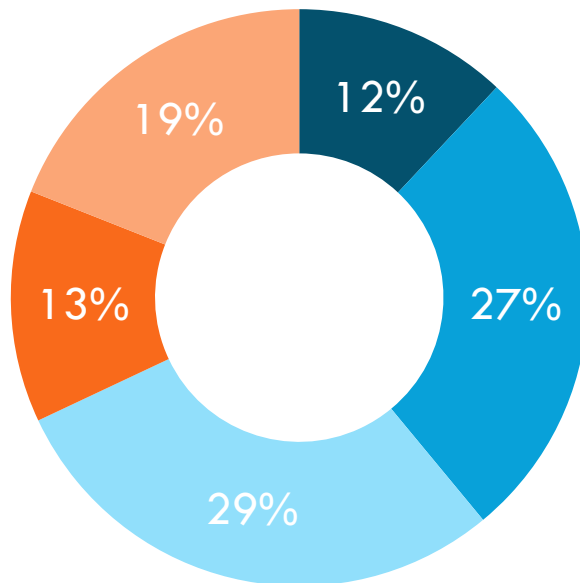


Informal Fiscal Realities

	Definition	Examples
User fees	Fees charged directly for government services	School fees Public health fees
Informal user fees	Fees charged to finance a local, non-governmental public good, or to provide supplemental financing to a governmental public good	Contributions to support community teachers Payments to caretakers of water wells Payments to service providers (nurses, police, etc.)
Informal taxes	Contributions collected by non-state actors to finance local public goods or support non-state institutions	Contributions for community development projects, community security, hosting guests

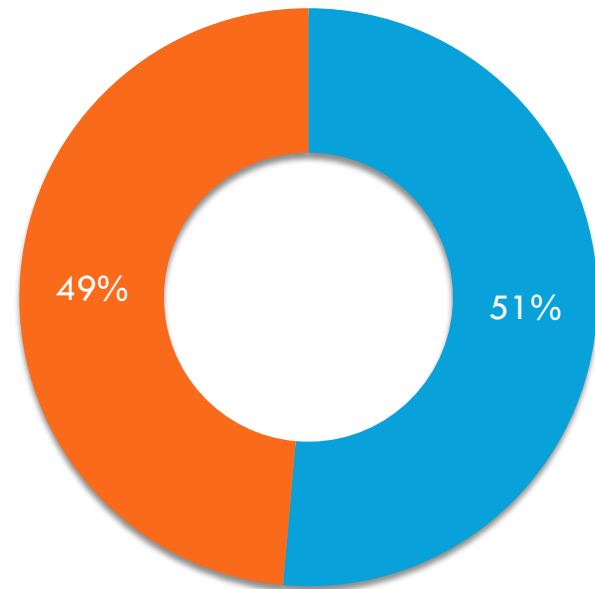
Magnitude of Informal Tax

Proportion of mean tax payments, Sierra Leone



- Central government tax
- Local government tax
- User fees
- Informal user fees
- Informal tax

Proportion of mean tax payments, DRC



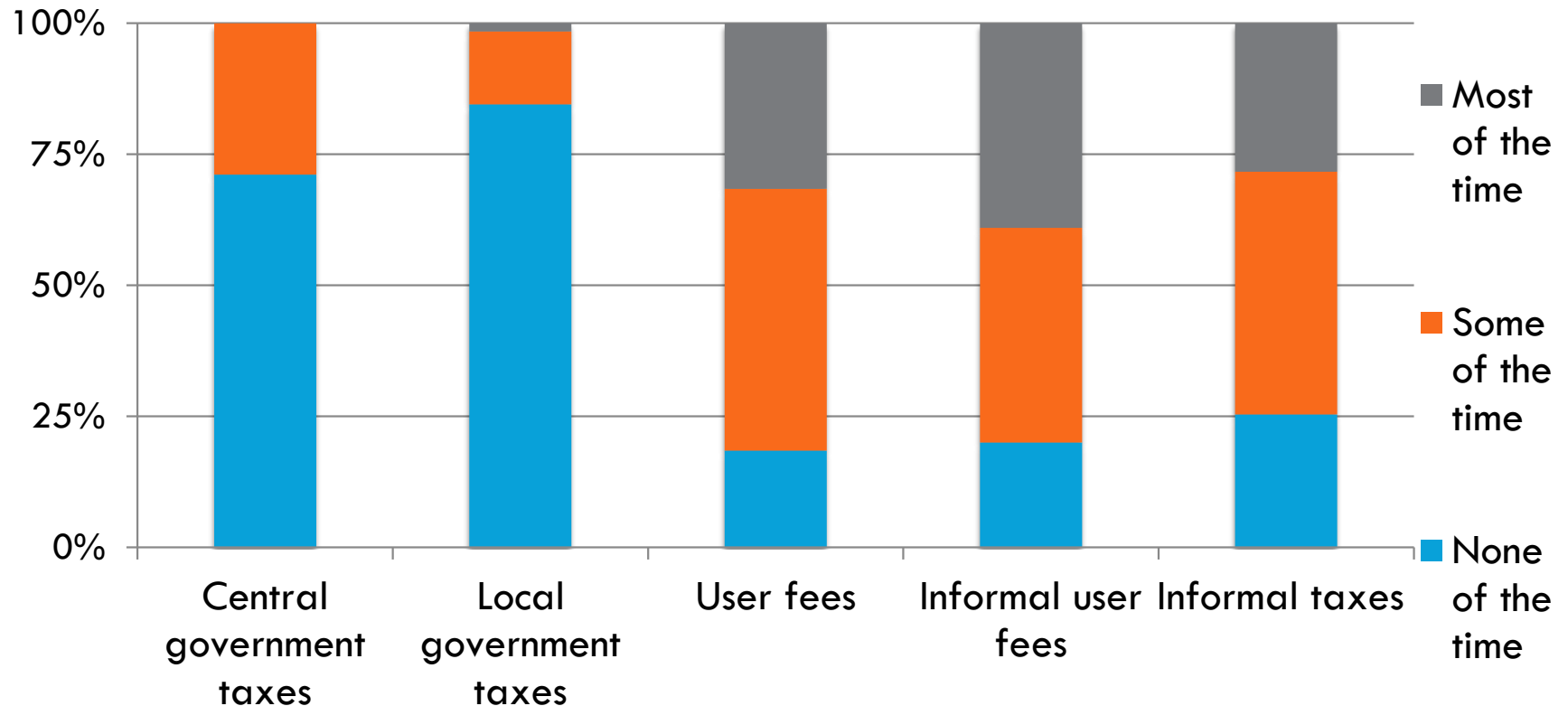
- Formal taxes and user fees
- Informal taxes and user fees

III. IMPLICATIONS FOR STATE-BUILDING



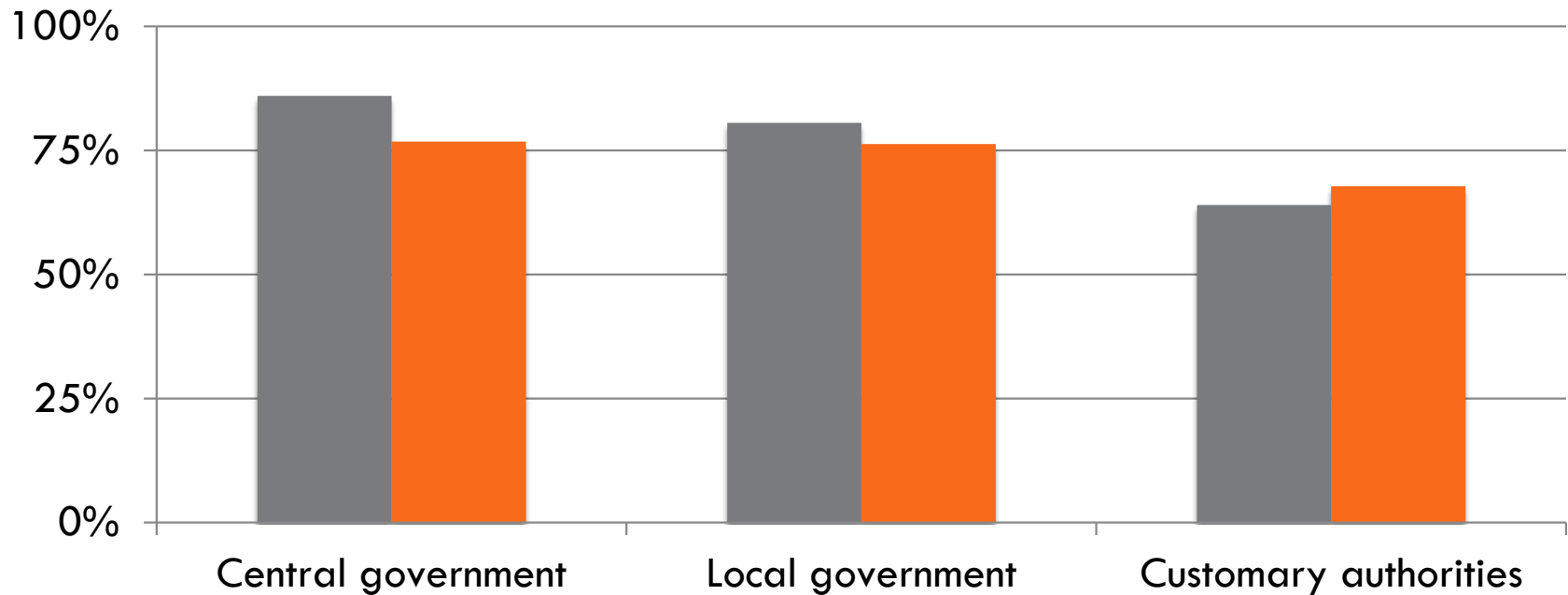
Taxpayer Perceptions – Sierra Leone

Share of respondents who believe that revenues are used to benefit the community



Impact on Tax Morale - DRC

- Share of respondents agreeing that government always has the right to make people pay tax
- Share of respondents agreeing that not paying taxes is wrong and punishable



Typology of formal-informal relations

	Taxpayers may pay to both state and non-state institutions for the public good	Taxpayers may pay to either state and non-state institutions for the public good
No state option exists for the public good	Coexistent	Supplementary
State option exists for the public good	Complementary	Substitutive

IV. POLICY IMPLICATIONS



Implications

- The informal is critical to the reform of the formal
- Reforming existing forms of revenue raising
- Considering “hybrid” options

“[Informal tax] is normal... it helps communities to be self-reliant...because it takes development where government cannot reach.”

Local government official, Koinadugu district, Sierra Leone

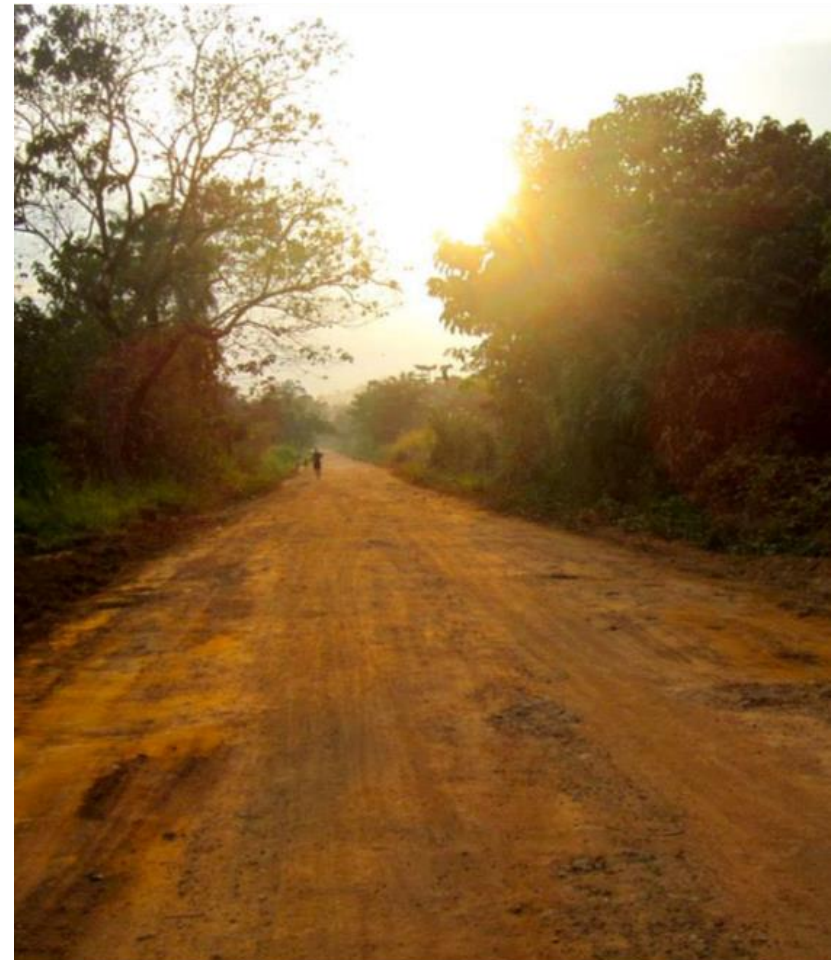
Formal-Informal Partnerships

“Our role now as councils is to give oversight and a supervisory role over these facilities and structures set up in the form of committees. This is how we want to go and the way to go while we move along... the lines between formal and informal taxes are getting thinner [within communities].”

Chief Administrator, Koinadugu District Council, Sierra Leone

Risks and remaining questions

- Accountability and transparency
- Effectiveness
- Capture by local elites
- Impacts on long-term sustainability



THANK YOU

Vanessa van den Boogaard

v.vandenboogaard@utoronto.ca